

## COMPANY UPDATE

### Malaysia Marine and Heavy Engineering (MMHE MK)

Sustainability In Future Profit Generation

MMHE is busy executing the contracts from >RM7.5b orderbook (an all-time high), while still having the appetite to secure new projects. Aside from offshore wind jobs, MMHE is gaining traction internationally, and may bid for a sizeable Qatari O&G contract. The marine segment is starting to service sophisticated O&G vessels and its first FSRU project, although our forecasts remain conservative, as it may also benefit from green retrofit demand. Maintain BUY and target price of RM0.80.

#### WHAT'S NEW

- **Armed with ~RM7.5b orderbook.** Just after MMHE's 2022 result announcement, MMHE announced US\$300m (RM1.4b) worth of fabrication orders from Carigali-PTTEPI (CPOC) for five wellhead platforms (WHP), five subsea pipelines and host tie-in works. This job, with an estimated first steel cut targeted for 2H23, marks MMHE's third major O&G win since 2022, after securing the Rosmari-Marjoram unmanned solar WHP and the RM4.5b Kasawari Carbon Capture and Storage (CCS) projects from Shell and Petronas respectively. We estimate MMHE's current orderbook at an all-time high of RM7.5b.
- **High O&G demand necessitates reactivation of the mothballed East Yard,** despite MMHE previously guiding that the idle East Yard will be allocated to offshore wind jobs. The West Yard's utilisation was already optimal at 80% in 2022. The East Yard's reactivation will utilise about 70% of its RM100m capex guidance. For the transportation and installation (T&I) worksopes, MMHE has completed the T&I preparation with its partners, ie Boskalis for Kasawari CCS and PT Timas for CPOC Phase 6.
- **Contract win appetite still strong.** MMHE has a long-term agreement (LTA) with Saudi Aramco since 2018. Although no major contracts materialised from Saudi's LTA, MMHE's 2022 Annual Report revealed that through its Saudi Arabia office, MMHE was recently qualified to bid for platform demand by Qatar's QatarGas and North Oil Company. MMHE is still bidding for wind projects worth RM4b for substations and RM1b for jackets.
- **We expect MMHE to submit EPCIC bids for Qatar's EPCI 11 Ruya Package.** North Oil Company last month issued bids for multiple turnkey contracts worth up to US\$5b for the Al Shaheen oilfield. According to Upstream, the packages on offer are EPCI 9 (subsea pipelines), EPCI 11 (9-10 WHPs), EPCI 12 (a new riser platform and topsides) and EPCI 13 (a new central processing platform). Upstream thinks MMHE may be keen to bid for EPCI 11 and EPCI 13 packages. Our channel checks revealed that MMHE is most likely focusing on EPCI 11 (but not EPCI 13), although for this package there are other serious contenders including India's Larsen & Toubro, China's COEEC, Vietnam's PTSC and McDermott.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,467	1,652	2,440	2,875	3,050
EBITDA	(178)	141	153	131	127
Operating profit	(266)	61	70	50	48
Net profit (rep./act.)	(270)	68	65	45	42
Net profit (adj.)	(279)	27	65	45	42
EPS (sen)	(17.4)	1.7	4.0	2.8	2.7
PE (x)	n.m.	35.9	14.7	21.4	22.4
P/B (x)	0.6	0.5	0.5	0.5	0.5
EV/EBITDA (x)	n.m.	3.8	3.5	4.1	4.3
Dividend yield (%)	0.0	2.5	3.4	3.4	3.4
Net margin (%)	(18.4)	4.1	2.7	1.6	1.4
Net debt/(cash) to equity (%)	(19.9)	(25.8)	(22.9)	(21.9)	(18.9)
Interest cover (x)	(13.8)	9.9	15.0	12.3	11.5
ROE (%)	n.a.	3.9	3.6	2.5	2.3
Consensus net profit	-	-	70	87	100
UOBKH/Consensus (x)	-	-	0.92	0.51	0.42

Source: Malaysia Marine and Heavy Engineering Holdings, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	RM0.60
Target Price	RM0.80
Upside	+34.0%

#### COMPANY DESCRIPTION

Petronas-owned deepwater capable offshore oil and gas fabricator with engineering, procurement, construction, installation & commissioning (EPCIC) expertise.

#### STOCK DATA

GICS sector	Energy
Bloomberg ticker:	MMHE MK
Shares issued (m):	1,600.0
Market cap (RMm):	952.0
Market cap (US\$m):	213.0
3-mth avg daily t'over (US\$m):	0.8

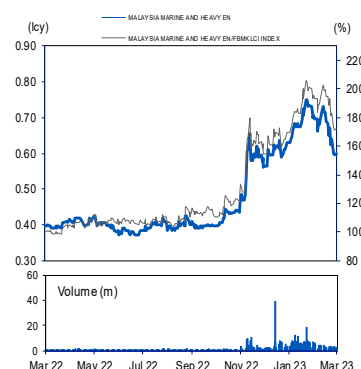
#### Price Performance (%)

52-week high/low		RM0.750/RM0.370		
1mth	3mth	6mth	1yr	YTD
(16.2)	1.7	46.9	56.6	0.0

#### Major Shareholders

	%
MISC Bhd	66.5
Technip SA	8.5
FY23 NAV/Share (RM)	1.13
FY23 Net Cash/Share (RM)	0.26

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Kong Ho Meng**  
+603 2147 1987  
homeng@uobkayhian.com

## STOCK IMPACT

- **Qatar O&G bids are not yet part of the RM10-11b tenderbook**, as the tenderbook details revealed during its 4Q22 result briefing were only for visible bid pipelines up till Dec 22. Our guesstimate is that EPCI 11 alone should be worth about US\$1.5b, and the fabrication can still be done in the Malaysian yard (after the loadout of Jerun and Kasawari). This is a strong sign of MMHE gaining strength in international O&G EPCIC markets, even though the chances of MMHE securing a Qatar job may be low. This is because MMHE has not won any Qatar contracts yet (the last time it bid was in 2015).
- **Marine repair gaining more sophisticated orders**. Recall that this segment returned to profitability, as its orderbook rose by 75% yoy to RM282m in 2022. Out of 69 marine clients, 41 were new with 53 projects worth RM114m. We observed that this segment started to gain orders for more sophisticated O&G vessels, other than the usual rigs, tankers and LNG vessels. In Mar 23, MMHE completed the final class inspection works for Helix Energy's Q7000 submersible well intervention vessel (deck load : 3000 metric tonnes).
- **MMHE will soon execute its first modification job on a Floating, Storage, Regasification Unit (FSRU)**. While the value and customer were not disclosed, we believe it to be FSRU BW Paris, which is intended to be renamed to BW Batangas and deployed to the customer in Manila (Philippines) by 3Q23. Market conditions (ie the large Korean yards are fully booked for LNG and container vessel newbuilds, as well as Sembcorp Marine's merger with Keppel), may have been favourable to help MMHE get its first FSRU-related work. The last time MMHE had modification works was for the conversion of FSO Bergading in 2015 (for EA Technique). Overall, this is a positive surprise to us, and if our guesstimate is right (on the FSRU), it will bode well for MMHE's standing simply because the FSRU's capacity of 5MTPA is sizeable among the global fleet.
- **We still believe MMHE will gain more from green retrofit works**. The green shipping regulations like the Energy Efficiency Existing Ship Index (EEXI) and the Carbon Intensity Indicator (CII) is effective from 2023. Non-compliant ships (usually older ships with less efficient technology) will have to sail about >20% slower to meet emission standards, and without retrofits, about 75% of the global fleet will be non-compliant. MMHE is expecting customer orders related to EEXI-related retrofit jobs to increase from 2Q23, on top of the normal dry docking demand. MMHE is also expanding its berths at Quay 1 and Quay 7 and adapting automation solutions, in anticipation of this demand.
- **Onshore/plant maintenance segment not yet profitable**. In 2022, the segment saw revenue halving yoy to RM6m, but operating loss was similar to 2020's base at RM0.8m. Hiap Seng, its partner for the PETRONAS Master Service Agreement (MSA) for Integrated Turnaround Main Mechanical and Maintenance Mechanical Static, ceased operations. MMHE renewed the MSA in Dec 22 with Boiler Master.

## EARNINGS REVISION/RISK

- **Maintain earnings forecasts**. We continue to project a spike in EEXI-related green shipping retrofit demand after 2Q23, and conservatively assume marine revenue to normalise thereafter. Hence, we leave room for more profit upside, if the green retrofit demand remains strong after 2023. A key risk is opex as we foresee that retention of technical staff and key vendors will be increasingly challenging, especially among regional yards. Hence, effective project management remains crucial. To this, MMHE has allocated half of the 278 project headcount allocation to marine.

## VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM0.80, at unchanged 0.7x P/B**. At our target price, both P/B and P/E (implied 20x) valuations reflect pre-2018 five-year mean, the periods when marine repair was the recurring earnings base. Essentially, we see that a sustainable marine profit base will support MMHE's valuation rerating, and we still see upside driven by potential contract catalysts and diversification to ESG-related projects.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

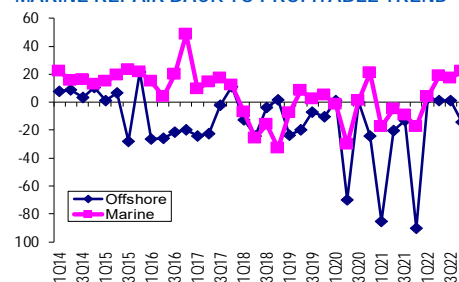
<b>• Environmental</b> <ul style="list-style-type: none"> <li>- <b>Carbon (CO2) emission reduction</b>. MMHE adopted the greenhouse gas (GHG) protocol. 8.3MWp Solar panel installation to generate RM30m savings over 21 years.</li> <li>- <b>Safety (HSE)</b>. 0.63 Lost Time Injury (LTI) Frequency in 2022 (2021: 1.20) for Marine Operations. 0.10 LTI Frequency for Heavy Engineering Operations (2021: 0.00).</li> </ul>
<b>• Social</b> <ul style="list-style-type: none"> <li>- <b>Diversity</b>. 18% female representation among employees.</li> <li>- RM200 salary adjustment to all employees in 2022 for cost of living (RM6m).</li> </ul>
<b>• Governance</b> <ul style="list-style-type: none"> <li>- Aligning to MISC's ESG and Responsible Supply Chain programme.</li> </ul>

## BREAKDOWN OF RM10-11B TENDERBOOK

Overseas (86%)	Local (14%)
Non-O&G i.e. wind (60%)	O&G (40%)
Offshore (80%)	Onshore (20%)

Source: MMHE, UOB Kay Hian

## MARINE REPAIR BACK TO PROFITABLE TREND



Source: MMHE, UOB Kay Hian \*In RM million

## DRY DOCKING OF Q-7000 SUBMERSIBLE



Source: Helix

## SEGMENTAL FORECASTS

(RMm)	2023F	2024F	2025F
Revenue	2,440.0	2,875.0	3,050.0
Offshore	1,910.0	2,365.0	2,590.0
Marine repair	530.0	510.0	460.0
Operating profit	69.7	49.9	48.1
Offshore	(4.5)	(11.3)	(7.1)
Marine repair	74.2	61.2	55.2
Margins (%)	2.9%	1.7%	1.6%
Offshore	-0.2%	-0.5%	-0.3%
Marine repair	14.0%	12.0%	12.0%

Source: UOB Kay Hian

## 2022: MMHE'S PLANT MAINTENANCE PROJECTS

Client	Project
KNM Process	SK2 Column 0032 (sub out fabrication work)
Idemitsu SM	Fabrication of underground piping fire
ST Power	Blind fabrication works
Malaysian Refining	Portable boiler works
BASF Petronas Chemicals	Hot work activity on structural
KL Kepong Oleomas	Annual plant turnaround static + mechanical works

Source: MMHE, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	1,652	2,440	2,875	3,050
EBITDA	141	153	131	127
Deprec. & amort.	80	83	81	79
EBIT	61	70	50	48
Associate contributions	0	0	0	0
Net interest income/(expense)	(14)	(10)	(11)	(11)
Pre-tax profit	47	59	39	37
Tax	21	5	5	5
Minorities	0	0	0	0
Net profit	68	65	45	42
Net profit (adj.)	27	65	45	42

### BALANCE SHEET

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	1,493	1,462	1,421	1,370
Other LT assets	295	295	295	295
Cash/ST investment	797	758	744	692
Other current assets	772	1,270	1,509	1,620
<b>Total assets</b>	<b>3,358</b>	<b>3,786</b>	<b>3,970</b>	<b>3,977</b>
ST debt	36	41	43	42
Other current liabilities	1,249	1,638	1,809	1,806
LT debt	304	304	304	304
Other LT liabilities	0	0	0	0
Shareholders' equity	1,769	1,801	1,814	1,824
Minority interest	1	1	1	1
<b>Total liabilities &amp; equity</b>	<b>3,358</b>	<b>3,786</b>	<b>3,970</b>	<b>3,977</b>

### CASH FLOW

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	133	58	77	30
Pre-tax profit	47	59	39	37
Tax	21	5	5	5
Deprec. & amort.	80	83	81	79
Associates	0	0	0	0
Working capital changes	19	(90)	(49)	(91)
Other operating cashflows	(33)	0	0	0
Investing	3	(70)	(60)	(50)
Capex (growth)	(41)	(70)	(60)	(50)
Investments	0	0	0	0
Others	44	0	0	0
Financing	(50)	(27)	(30)	(33)
Dividend payments	0	(32)	(32)	(32)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1)	14	12	10
Loan repayment	(49)	(9)	(10)	(11)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	87	(39)	(13)	(53)
Beginning cash & cash equivalent	710	797	758	744
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	797	758	744	692

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	8.5	6.3	4.6	4.2
Pre-tax margin	2.8	2.4	1.4	1.2
Net margin	4.1	2.7	1.6	1.4
ROA	2.0	1.8	1.1	1.1
ROE	3.9	3.6	2.5	2.3
<b>Growth</b>				
Turnover	12.6	47.7	17.8	6.1
EBITDA	n.a.	8.8	(14.2)	(3.4)
Pre-tax profit	n.a.	27.2	(34.0)	(5.6)
Net profit	n.a.	(4.4)	(31.2)	(4.9)
Net profit (adj.)	n.a.	144.4	(31.2)	(4.9)
EPS	n.a.	144.4	(31.2)	(4.9)
<b>Leverage</b>				
Debt to total capital	16.1	16.1	16.0	15.9
Debt to equity	19.2	19.1	19.1	19.0
Net debt/(cash) to equity	(25.8)	(22.9)	(21.9)	(18.9)
Interest cover (x)	9.9	15.0	12.3	11.5

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W